

When You Retire From Your Own Business: What Social Security Needs to Know

If you own and operate a business and you're getting ready to retire, Social Security will need to know whether you'll be completely retired or whether you plan to continue some involvement in the business.

To get all of your Social Security retirement benefits, you must retire, or at least reduce your 2003 earnings below \$11,520 if you're under age 65, or below \$30,720 if you will turn age 65 in 2003. If you reduce your earnings, you also must reduce your involvement in the business so that it corresponds with the amount of your earnings.

When you work for wages, it's easy to determine whether you're "retired." Your earnings tell the whole story. But when you work in a business that you (or your family) own, or you are an officer in a corporation, it's not as simple. Because you could be in a position to control your earnings, you may need to furnish us with additional information—such as tax returns or corporate records—when you apply for benefits. This will help us decide whether you have reduced your services in the business to match the reduction in your income. In other words, your earnings must match the work you do. You cannot simply pay yourself a smaller salary to stay under Social Security's earnings limits.

This factsheet provides you with information on how we decide whether a person meets Social Security's definition of retirement and describes the types of evidence we need to make that decision.

How Earnings Reduce Your Social Security Benefit

In 2003, if you are under age 65 and 2 months, you can earn up to \$11,520 and still receive full benefits. For every \$2 you earn over this limit, \$1 is withheld from your benefits. In the year you reach your full retirement age (age 65 and

2 months in 2003), your benefits will be reduced \$1 for every \$3 you earn over the limit (\$30,720 in 2003) until the month you reach full retirement age. Then you can continue to work without any reduction in the amount of your monthly benefit no matter how much you earn.

Are You Really Retired?

When you apply for Social Security benefits, there are several situations requiring additional information and evidence to help us decide **your level of retirement**. For example, additional questions would be appropriate if you are—

- involved in a family business, or another family member is assuming some, or all, of your duties;
- continuing to render services for the business at a reduced rate of compensation;
- in a position to control your earnings in order to receive Social Security retirement benefits;
- still the owner or part-owner of a business and own stock in the business; or
- splitting wages with others (dividing former salary between you and your spouse or children, for example).

What Additional Evidence May Be Needed?

In addition to the retirement benefit application, we'll ask you to tell us about your retirement plans. We may ask you to complete a *Self-Employment/Corporate Officer Questionnaire* (Form SSA-4184) to provide us with information needed to determine whether you're retired. You also may be asked for additional documentation such as personal and business tax returns, corporate resolutions,

stock transfer agreements and resignations. We pay special attention to situations in which your salary has been reduced but you are compensated through another form of payment. These may include an increase in dividends, an increase in salary to another family member (with no change in responsibility), excessive rent or loan repayments and unexplained business expenses.

What We Count As Earnings

When you continue receiving compensation, we consider the work you performed and the amount you earned while working and compare it with your work and earnings after “retirement.” We determine the reasonable value of the services you perform for the business, based on the time spent and nature of the services, and compare it to the income you receive. If we decide that the value of your services exceeds your income, we must determine a dollar amount for those services and count it against Social Security’s annual earnings limits.

Also, if we determine that you are not retired and that your earnings have been under-reported, we have the right to adjust your Social Security earnings record. We also may notify the Internal Revenue Service so that it may determine whether your tax liability needs adjustment.

An Example

The following example describes a situation that would require an extensive interview and documentation because the person is retiring from a family business or corporation. Let’s say Mr. Davenport owns and manages a furniture store and he is about to file for Social Security benefits. He decides to name his wife as manager even though he intends to continue to control and manage the business. We will need to compare his earnings to the level of work he performed before he named his wife manager.

If we learn that his “retirement” is merely a paper transaction transferring earnings to his wife with no reduction in his services, we would adjust his earnings to reflect his involvement in the business and pay benefits based on those adjusted earnings. We would not suggest that Mr. Davenport completely discontinue his

involvement with the business. Instead, we would remind him that if he wants to continue to work, the amount of his earnings must match the amount of work he does.

Early Contact With Social Security Office Is Important

You should check with us well before applying for benefits to make sure you are aware of the documentation you will need to furnish for the interview. Remember, if you’re under full retirement age, you have to “retire” to collect “retirement” benefits—or at least significantly reduce your involvement in business and keep your earnings within the income range (explained on the front of this factsheet). That will permit us to pay some or all of your Social Security benefits.

For More Information

For general information about Social Security visit our website at www.ssa.gov. We provide a variety of online services, such as applying for retirement benefits or subscribing to *eNews*, our electronic newsletter, or you can call our toll-free telephone number,

1-800-772-1213, 24 hours a day, seven days a week. You can speak to a service representative between 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month, so, if your business can wait, it’s best to call at other times. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll-free TTY number, **1-800-325-0778**, between 7 a.m. and 7 p.m. on business days.

We treat all calls confidentially whether they’re made to our toll-free numbers or to one of our offices. We also want to make sure you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing calls.

Social Security Administration

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